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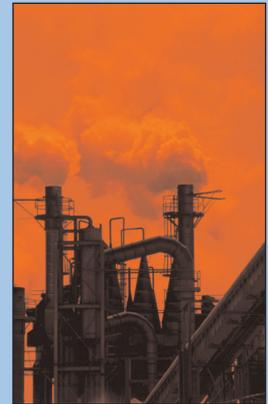


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## Greening U.S. Foreign Aid through the Millennium Challenge Account

NIGEL PURVIS

Congress will soon take up President Bush's Millennium Challenge Account (MCA) proposal, which would dramatically increase U.S. foreign aid. The MCA represents a tremendous opportunity to fight global poverty and make U.S. development assistance more effective. In the form proposed by the president, however, the MCA would needlessly harm the environment and hinder long-term economic development. To guard against this, Congress should build the MCA's mission around the broader concept of sustainable development rather than economic growth alone, make environmental protection a priority, and require the MCA to analyze the environmental consequences of its activities. These steps would foster stronger, wiser international development, advance broader U.S. security interests, and bring the MCA in line with longstanding, bipartisan U.S. policy and international norms.



### MILLENNIUM CHALLENGE ACCOUNT

In March 2002, President Bush pledged to work with Congress to increase U.S. foreign aid to poor nations by \$5 billion per year over current assistance levels through what he termed a new "Millennium Challenge Account" (MCA), by far the largest proposed increase in U.S. foreign aid in several decades. Under the president's plan, funds from the MCA would be directed

to enlightened governments to create incentives for policy reforms worldwide and help avoid wasteful spending on corrupt, illiberal regimes. The president has proposed eligibility criteria measuring whether a regime is "governing justly, investing in people, and encouraging economic freedom." MCA monies would be provided to developing countries as grants, not as traditional U.S.-managed projects, and would be used to help build local governance capacity and project ownership.

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The MCA initiative comes at a time when the strategic benefits to the United States of engaging poor countries are more apparent than ever. President Bush is right to justify stepped up international anti-poverty efforts on national security and humanitarian grounds. While delivering foreign aid in the manner envisioned by the president would involve some genuine risks, on balance the MCA is a promising experiment that deserves a chance to succeed.

Yet the MCA initiative has at least one serious design flaw—it is blind to the role of the environment in alleviating poverty and improving lives. The administration's proposed MCA legislation defines U.S. development policy solely as an attempt to “reduce poverty through economic growth.” While economic growth is a vital component of development, the administration's singular focus on growth represents a significant and ill-advised departure from existing U.S. policy and well-established international precedent.

## ENVIRONMENT AND DEVELOPMENT

What does the environment have to do with promoting development and reducing global poverty? The answer is a great deal. Environmental protection is a key to sustaining economic growth. The poor tend to depend on natural resources for their livelihoods. Ecological stewardship is vital to their wellbeing. Improving natural resource management yields concrete dividends in the fight against poverty. In addition, environmental threats to human health, such as waterborne diseases, remain the leading cause of childhood

mortality in poor countries. Half of all hospital beds in these countries are occupied by people who contracted their illness through untreated drinking water. By addressing environmental perils, policy-makers can lengthen life expectancies and improve the quality of life.

At the same time, progress on the environment also depends on economic growth. Many poor people struggling to meet their basic human needs believe they cannot afford the luxury of environmental protection. As societies prosper, their financial willingness and technical capacity to fight environmental ills increases. That is why some growth advocates believe that focusing solely on economic measures makes sense. They argue that environmental regulation can reduce economic growth and slow progress against poverty. Because the poor tend to be agents of pollution as well as its victims, they maintain, regulation that reduces economic growth actually detracts from both poverty alleviation and environmental protection.

In fact, the relationship between economic growth and environmental protection is more complex. Unless managed carefully, the path to wealth pursued by poor countries can bring about fundamental, irreversible, and unwise environmental change. Indonesia's forests—once among the biologically richest and most expansive in the world—now rank among the most threatened. Over 40 percent of the country's forests were cleared in the last fifty years, with half of the loss occurring in the last decade. But clear cutting has



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done little for Indonesia; incomes are down over the last decade from financial mismanagement and corruption. Even when incomes rise in developing nations, there is often a lag between transforming economic activity and environmental protection as most societies are reactive. Because environmental changes can be irreversible, particular attention is needed to balance local and global interests, as well as the interests of present and future generations.

Some environmental problems, moreover, are accentuated by consumption patterns ordinarily associated with economic development. Rich people consume more energy and produce more climate-altering carbon dioxide than poor people. Per capita greenhouse gas emissions in highly energy-efficient Japan, for example, are still significantly higher than those of energy-inefficient India. In addition, wealthy people consume more natural resources. Demand from developed countries fuels unsustainable natural resource policies in developing countries. As poorer nations develop, moreover, their contributions to climate change and natural resource consumption will increase substantially.

### U.S. FOREIGN POLICY INTERESTS

Protecting the global environment is an important U.S. foreign policy objective. First, as the preceding discussion suggests, American humanitarian and security interests in development necessitate engagement on global environmental ills. Protecting the environment is in the long-term interests of developing countries and, therefore, the United States.

Second, global environmental threats can affect Americans' health and environment at home. Harmful toxins, such as DDT and dioxin released in China, for example, can travel long distances, ending up in U.S. lakes, rivers, and fish. Carbon emissions contribute to global climate change whether they are released at home or abroad. Protecting America from these threats requires global solutions.

Third, the global environment affects the U.S. economy. Dealing with largely preventable threats posed by foreign invasive species, such as the super-weed kudzu, costs the U.S. economy several hundred million dollars a year. Dealing with pollution along the U.S.-Mexico border is also costly. In contrast, encouraging other countries to fight environmental ills helps promote U.S. exports as American firms produce some of the most advanced environmentally friendly technology products. Fourth, avoiding international environmental tensions, such as regional conflicts over scarce water in the Middle East and Africa, can contribute to regional stability and enhance our security interests.

Finally, nature also has an important independent value for most Americans, who value it the way they value freedom—for its own sake. Human welfare and happiness depend on many nonmonetary intangibles, including a clean environment.

### SUSTAINABLE DEVELOPMENT

The strong U.S. interest in global environmental protection has meant that U.S. and international development

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efforts have been organized for more than a decade around the principle of “sustainable development,” not merely economic growth. While the concept can be difficult to apply in practice and has stirred partisan debate at home, it means roughly meeting the needs of the present generations without compromising the needs of future generations. Because progress against poverty must be sustainable, economic development must be environmentally sustainable. To avoid long-term or irreversible environmental damage, economic growth and environmental protection must be pursued simultaneously.

This concept has been enshrined in international thinking on development since the 1992 Earth Summit in Rio de Janeiro. The recent United Nations Millennium Development Goals, an ambitious set of anti-poverty objectives, highlight the centrality of sustainable development and include an extensive set of environmental benchmarks. Despite the fact that President Bush’s MCA announcement came on the eve of a major international gathering in Monterrey, Mexico, dedicated to advancing those goals, the administration’s proposal neither acknowledges sustainable development nor the importance of environmental progress.

The international consensus around the goal of sustainable development means that developing countries would welcome environmental aid. They lag behind industrialized nations in the adoption of modern energy technologies and are eager to close the gap. Many

poor nations have created national parks but lack the capacity to keep away illegal squatters, miners, farmers, poachers, and loggers. Encouraging more action on issues affecting poverty and the environment was the central theme of the World Summit on Sustainable Development last year in Johannesburg, South Africa. The signal from the international community could not be clearer: sustainable development, including its environmental dimension, is the global priority.

The international emphasis placed on environmental protection is primarily a result of U.S. leadership. The longstanding, bipartisan foreign policy of the United States maintains that economic growth and environmental protection must proceed in tandem. Not only does the United States pursue international environmental protection directly through treaties, trade negotiations, and foreign assistance, but it ensures that its commercial objectives do not produce unintended ecological consequences. Moreover, U.S. policymakers have demonstrated, through domestic policies, that sustained progress on the environment actually contributes to prosperity. For example, air and water have become substantially cleaner over the past two decades, even as the United States has led the developed world in economic growth.

### REORIENTING THE MCA

Soon Congress will take up the president’s MCA proposal with a view to enacting initial authorizing legislation

that will define the purpose, scope, and modalities of this new U.S. approach to development. Lawmakers and the administration should use this opportunity to ensure that the MCA builds on U.S. and international sustainable development efforts. In practical terms, this will require the following changes to the administration's initial MCA proposal:

#### *Environmental Mandate*

The central objective of the MCA should be promoting sustainable development rather than economic growth alone. Not only would this bring the MCA in line with widely accepted development policy, but it also would make the MCA consistent with the goals of existing U.S. foreign affairs and development agencies. The State Department, the U.S. Agency for International Development (USAID), the Overseas Private Investment Corporation (OPIC), and the Export-Import Bank of the United States, for example, have explicit environmental and sustainable development statutory mandates. To help build a culture that values environmental protection, the MCA's implementing agency should have a statutorily established environmental advisory committee for its first two years of operation. The advisory committee would help the agency establish responsible environmental policies and procedures.

#### *Environmental Safeguards*

The MCA's implementing agency should be required to adopt an extensive set of

procedural safeguards to ensure MCA-funded projects are environmentally sensible. It should screen projects for environmental risks and disqualify categorically certain types of environmentally damaging or socially disruptive projects, such as large-scale dams that would forcibly displace thousands of people. The new agency should conduct technical assessments of the likely environmental effects of grant proposals. The MCA program would benefit if the agency monitored its overall environmental track record and prepared annual reports on the long-term environmental consequences of its grants. While the MCA should encourage developing countries to help prepare this analysis and follow similar procedures, the MCA should be responsible for the completeness and accuracy of environmental assessments.

Environmental safeguards are a well-established part of U.S. development policy. Since 1979, Executive Order 12114 has required U.S. agencies to assess the environmental effects abroad of "major federal action." Because of the executive order's limited scope, Congress has in recent years required that existing U.S. development agencies follow additional strict environmental assessment and reporting procedures. Almost all U.S. international agencies (including USAID, the EX-IM bank, and OPIC) must screen projects for environmental sensitivity, conduct rigorous assessments of possible environmental consequences, and monitor environmental results. Executive Orders also extend similar requirements to some



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other U.S. commercial agencies, such as the U.S. Trade Representative. These assessments are performed by the U.S. agencies themselves based in part on information submitted by recipient nations, and they include opportunities for public comment.

Importantly, both the environmental and business communities support these procedures. While some environmental organizations believe U.S. environmental assessments should be strengthened, they appreciate that these procedures make government decisions more transparent and participatory. The business community has found that government-sponsored environmental reviews can be commercially timely and add legitimacy to approved projects, which helps win public acceptance. Like existing environmental review processes in OPIC and elsewhere, great attention should be paid to making the MCA’s environmental screening and assessment procedures as simple and streamlined as possible. Given the success of past efforts, this would not be overly difficult.

Failing to require the MCA’s implementing agency to adopt a rigorous environmental assessment policy not only would depart from general U.S. practice but it would also undermine longstanding, bipartisan efforts by the United States to convince other countries and multilateral institutions to conduct their own environmental assessments.

The United States has led global efforts to strengthen the World Bank Group’s

already extensive environmental assessment procedures. It has also for years urged industrialized countries to require their export credit agencies to adopt environmental criteria similar to those already used by OPIC and the EX-IM bank. As early as 1992, for example, the United States successfully negotiated a common donor statement of the importance of assessing the environmental impact of foreign assistance programs. Allowing U.S. foreign aid to be blind to the environment now would undercut the progress we have made internationally to coordinate donor efforts and ensure a level international playing field for U.S. companies.

#### *Environmental Grants*

The MCA should make environmental grantmaking a major focal area for funding. The administration has suggested that the MCA will operate like a private philanthropic foundation. Such foundations routinely identify their funding objectives and encourage relevant grant proposals; the MCA should work the same way. Congress should make environmental funding a statutory priority, particularly with regard to global environmental threats that could harm the United States.

Giving some priority to environmental aid in the MCA would fit well with the strong tradition of U.S. leadership on the global environment. U.S. environmental assistance programs abroad enjoy broad bipartisan support. The president’s fiscal 2004 budget request includes \$286 million in development assistance funding for environmental programs. USAID

proposes about \$155 million for global climate change programs alone. The United States continues to be the largest donor to the Global Environment Facility (GEF), a multilateral fund affiliated with the World Bank that helps developing countries mitigate environmental problems with potential global impact. The administration has pledged \$500 million over the next four years for the GEF. Meeting environmental threats remains a core objective under the Bush administration's revised national security strategy. The MCA should continue this tradition of leadership.

Some may take issue with the notion that the MCA should have any "priority" areas for grantmaking. They might argue that the MCA should respond to the priorities identified by developing countries alone, or suggest that since developing countries desire environmental assistance, making it a statutory priority is unnecessary. Indeed, one goal of the MCA should be to create a sense of developing country ownership in U.S. foreign aid projects, as that would increase the chances of success and build developing capacity for the future. Yet it would be unwise and unrealistic to argue that U.S. foreign aid should not actively reflect U.S. development priorities. Foreign aid must advance U.S. interests in order to enjoy public support. The United States, moreover, has a legitimate interest in helping to define sustainable development in a manner that corresponds with U.S. interests and values. Congress also is unlikely to appropriate the \$5 billion annually President Bush has said he will seek without providing some specific funding

objectives. While developing countries are likely to request environmental aid, the MCA should make sure the aid available for that purpose is sufficient.

#### *Environmental Eligibility Criteria*

The Bush administration has not proposed conditioning MCA funding on environmental performance. The administration is right to go slow on this issue. Admittedly, there are a number of good reasons to include environmental eligibility criteria. Whether a government protects the environment for present and future generations is a good indication of whether it is "investing in people," which the president seeks to require in the proposal's criteria. Environmental criteria would create some incentives for improving environmental protection in MCA ineligible countries. Moreover, because environmental degradation occurs frequently in countries where corruption and mismanagement run deep, moreover, environmental eligibility criteria would help weed out countries where U.S. monies would be misspent. The tie is now well established between crime, corruption, and violence on one hand, and illegal, often environmentally damaging, diamond, timber, exotic animal, and petroleum trade on the other. Disqualifying countries that have environmentally unsustainable development practices, in addition, would provide protection against American taxpayer money contributing inadvertently to environmental degradation and violence fueled by trade in natural resources.

Yet finding measurable, universally applicable environmental indicators would be difficult. Environmental conditions differ

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enormously from country to country. Environmental policies that make sense for Brazil may not be appropriate in Egypt or Bangladesh. Environmental performance is a function not only of government policies but also geography. Air pollution, for example, depends partially on factors that governments cannot control easily (such as climate and urbanization). Even seemingly relevant indicators, such as per capita environmental spending, are difficult to quantify and do not appear to correlate precisely with environmental excellence. Over the past decade, the Environmental Protection Agency, the World Bank, the United Nations Environment Program and others have developed a variety of environmental indicators. To date, these indicators are proving more useful in gauging a country's performance over time than in comparing its environmental performance to other nations. Further work is needed on environmental indicators before they should be considered proxies for good

environmental policy or incorporated into the MCA.

CONCLUSION

President Bush's MCA proposal is a tremendous opportunity to enhance U.S. development efforts, but it could harm the environment and undermine long-term economic growth unless managed correctly. Congress should work with the administration to ensure that the MCA:

- Promotes sustainable development, not economic growth alone;
- Adopts extensive procedural safeguards to help it generate sound information about the environmental impact of its activities;
- Makes the environment a priority area for grantmaking.

These steps would continue an important tradition of U.S. environmental leadership and make the MCA a more effective tool in the fight against global poverty. **B**

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